

**Village of Decatur  
Van Buren County, Michigan**

**Annual Financial Statements  
and  
Auditors' Report**

**February 29, 2008**

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**Village of Decatur**  
**List of Elected and Appointed Officials**  
**February 29, 2008**

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**Village Council**

Carl Wickett – President

Joe Groh – Pro Tem

Tom Creagan – Trustee

Ali Elwaer – Trustee

Troy Sampsell – Trustee

Geoff Johnson – Trustee

Jay Newell - Trustee

**Other Officers and Officials**

Martin Super – Village Manager

Roberta J. Rex – Treasurer

Lou Ann Conklin - Clerk

## **Independent Auditors' Report**

To the Members of the Village Council  
Village of Decatur  
Decatur, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Decatur as of and for the year ended February 29, 2008, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of Village of Decatur as of February 29, 2008 and the respective changes in financial position and cash flows, where applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis and budgetary comparison information identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Village of Decatur's basic financial statements. The accompanying other supplemental information listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Yeo & Yeo, P.C.*

July 30, 2008  
Kalamazoo, Michigan

**Village of Decatur**  
**Management's Discussion and Analysis**  
**February 29, 2008**

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The management of the Village of Decatur, Michigan ("the Village") provides this narrative overview and analysis of the financial activities of the Village for the fiscal year ended February 29, 2008 for the benefit of the readers of these financial statements. This management's discussion and analysis ("MD&A") is intended to assist the reader in focusing on significant financial issues and provide an overview of the Village's financial activity. The Village encourages the readers to consider the following information here in conjunction with the financial statements taken as a whole, which follow this section.

**HIGHLIGHTS**

**Government-wide:**

The assets of the Village exceeded its liabilities at the close of the fiscal year by \$5.1 million (reported as net assets), an increase of approximately \$350,000 from the previous year. Of this increase, approximately \$250,000 is related to prior period adjustments.

**Fund Level:**

As of the close of the fiscal year, the Village's governmental funds reported combined ending fund balances of \$540,002. Of this amount, \$423,715 is reported as unreserved fund balance, with \$114,800 reserved for long-term business and home rehabilitation loans and \$1,487 reserved for permit fees. At the end of the fiscal year, fund balance for the General Fund was \$302,633 including \$114,800 reserved for long-term business and home rehabilitation loans and \$1,487 reserved for permit fees. The proprietary funds reported an increase in net assets of \$154,419 during the year. Approximately \$90,000 of the increase was related to prior period adjustments.

**Long Term Debt:**

The Village's total long-term debt was \$140,000 as of February 29, 2008 and related to a 1979 Water Supply System Revenue Bond. More detailed information regarding these activities and funds begins on page 4-22.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This MD&A is an introduction to the Village's basic financial statements, which comprise three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other required supplementary information in addition to the basic financial statements.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

**Village of Decatur**  
**Management's Discussion and Analysis**  
**February 29, 2008**

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The Fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements by providing information about the Village's most significant funds. The fiduciary fund statements provide financial information about activities for which the Village acts solely as a trustee or agent for the benefit of those outside of the government.

**FINANCIAL ANALYSIS OF THE GOVERNMENT AS A WHOLE**

The Village's combined net assets increased \$353,465 over the course of this fiscal year's operations to a total of \$5,104,911. The net assets of the governmental activities increased \$199,046 and business-type activities increased \$154,419. The increases include prior period adjustments in both the governmental activities and business-type activities of \$162,221 and \$89,840, respectively.

**Net Assets as of February 29, 2008 and February 28, 2007**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Assets</b>						
Current and other non-current assets	\$ 916,521	\$ 900,953	\$ 699,051	\$ 716,837	\$ 1,615,572	\$ 1,617,790
Capital assets	<u>1,092,878</u>	<u>963,315</u>	<u>2,652,089</u>	<u>2,687,105</u>	<u>3,744,967</u>	<u>3,650,420</u>
Total Assets	2,009,399	1,864,268	3,351,140	3,403,942	5,360,539	5,268,210
<b>Liabilities</b>						
Long-term liabilities	23,632	21,011	120,000	190,000	143,632	211,011
Other liabilities	<u>56,305</u>	<u>112,841</u>	<u>55,691</u>	<u>192,912</u>	<u>111,996</u>	<u>305,753</u>
Total Liabilities	79,937	133,852	175,691	382,912	255,628	516,764
<b>Net Assets</b>						
Invested in capital assets, net of related debt	1,092,878	963,315	2,512,089	2,477,105	3,604,967	3,440,420
Restricted	116,287	104,788	51,311	51,168	166,111	155,956
Unrestricted	<u>720,297</u>	<u>662,313</u>	<u>612,049</u>	<u>492,757</u>	<u>1,333,833</u>	<u>1,155,070</u>
Total Net Assets	\$ <u>1,929,462</u>	\$ <u>1,730,416</u>	\$ <u>3,175,449</u>	\$ <u>3,021,030</u>	\$ <u>5,104,911</u>	\$ <u>4,751,446</u>

The largest component of the Village's net assets reflects its investment in capital assets (e.g. land, buildings, equipment, infrastructure, and others), less any related debt outstanding that was needed to acquire or construct the assets. Unrestricted net assets are the next largest component. These represent resources that may be used at the Village's discretion, but often have limitations based upon policy action. The remaining portion, restricted net assets, is subject to external restrictions such as bond covenants, Village Charter, State legislation or Constitutional provision.



**Village of Decatur**  
**Management's Discussion and Analysis**  
**February 29, 2008**

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The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the Village's net assets changed during the fiscal year.

**Change in Net Assets For the Fiscal Years Ended February 29, 2008 and February 28, 2007**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
<b>Revenues</b>						
Program Revenues						
Charges for Services	\$ 10,304	\$ 8,240	\$ 373,079	\$ 363,508	\$ 383,383	\$ 371,748
Operating Grants	138,054	138,173	--	--	138,054	138,173
Capital Grants	--	42,500	8,415	317,315	8,415	359,815
General Revenues						
Taxes	491,136	460,805	--	--	491,136	460,805
State shared revenue	174,090	205,227	--	--	174,090	205,227
Unrestricted investment earnings	8,131	7,587	3,985	3,702	12,116	11,289
Transfers	---	20,840	--	--	--	20,840
Gain (loss) on sale of assets	3,750	--	--	--	3,750	--
Miscellaneous	<u>36,335</u>	<u>35,104</u>	<u>14</u>	<u>40</u>	<u>36,349</u>	<u>35,144</u>
Total Revenues	<u>861,800</u>	<u>918,476</u>	<u>385,493</u>	<u>684,565</u>	<u>1,247,293</u>	<u>1,603,041</u>
<b>Expenses</b>						
General government	166,468	175,147	--	--	166,468	175,147
Public safety	280,819	255,993	--	--	280,819	255,993
Public works	319,794	262,911	--	--	319,794	262,911
Community and economic development	1,316	370	--	--	1,316	370
Recreation and culture	56,578	141,258	--	--	56,578	141,258
Transfers	--	--	--	20,840	--	20,840
Water and Sewer	<u>--</u>	<u>--</u>	<u>320,914</u>	<u>478,964</u>	<u>320,914</u>	<u>478,964</u>
Total Expenses	<u>824,975</u>	<u>835,679</u>	<u>320,914</u>	<u>499,804</u>	<u>1,145,889</u>	<u>1,335,483</u>
Change in net assets	36,825	82,797	64,579	184,761	101,404	267,558
Prior period adjustment	162,221	6,501	89,840	--	252,061	6,501
Beginning net assets	<u>1,730,416</u>	<u>1,641,118</u>	<u>3,021,030</u>	<u>2,836,269</u>	<u>4,751,446</u>	<u>4,477,387</u>
Ending net assets	<u>\$ 1,929,462</u>	<u>\$ 1,730,416</u>	<u>\$ 3,175,449</u>	<u>\$ 3,021,030</u>	<u>\$ 5,104,911</u>	<u>\$ 4,751,446</u>

**Village of Decatur**  
**Management's Discussion and Analysis**  
**February 29, 2008**

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Property taxes comprise 62.2% of Governmental Activities revenue. The Village's operating millage during the fiscal year was 11.5631 for general Village activities, with an additional 3.0 mills specifically for streets, for a total of 14.5631 mills. In accordance with Charter and State Constitutional provisions, the Village may levy up to 17 mills for operation in fiscal year 2007-2008.

The Village has no income tax.

State shared revenue is collected by the State of Michigan and distributed to local governments by formula allocation of portions of the State sales tax and motor fuel and weight taxes. Fiscal year 2007-2008 receipts from the State of Michigan trended downward, attributed to discretionary reductions in revenue sharing payments by the State of Michigan.

**Business type Activities**

Total net assets of the business-type activities, which includes the water and sewer funds, increased by \$154,419 during the fiscal year. Of this increase, \$89,840 is related to prior period adjustments. The increase in net assets is related to the extensive infrastructure improvement projects that were completed in fiscal year 2007-08.

**FINANCIAL ANALYSIS OF THE VILLAGE'S FUNDS**

As the Village completed the fiscal year, its governmental funds reported fund balances of \$540,002. Of this total amount, \$423,715 constitutes unreserved fund balance. The remaining fund balance of \$116,287 is reserved and is not available for new spending because \$114,800 has been reserved for long-term business and home rehabilitation loans and \$1,487 has been reserved for permit fees.

**General Fund**

The General Fund is the chief operating fund of the Village. At the end of fiscal year 2007-2008, the General Fund fund balance was \$302,633 with \$114,800 reserved for long-term business and home rehabilitation loans and \$1,487 reserved for permit fees, and \$186,346 was unreserved and available for appropriation for general purposes. The General Fund fund balance increased by \$1,054 from the previous fiscal year.

**General Fund Budgetary Highlights**

Administrative actions were taken to ensure the most cost effective budgetary operations. Unbudgeted expenses included unusually high equipment rental costs.

Property tax revenue (including penalties and interest) increased \$10,409 or 2.9% in fiscal year 2007-2008. This is attributed to usual increases in property values. The State reduced revenue sharing payments by \$29,226 in fiscal year 2007-2008. This resulted from State actions in response to the statewide economic slowdown.

**Village of Decatur**  
**Management's Discussion and Analysis**  
**February 29, 2008**

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**CAPITAL ASSETS AND DEBT ADMINISTRATION**

Capital Assets: At the end of the fiscal year 2007-2008, the Village had invested \$3,744,967, net of accumulated depreciation, in a broad range of capital assets (see the table below). Total depreciation charges for this fiscal year were \$184,397.

**Capital Assets as of February 29, 2008 and February 28, 2007**  
**(net of depreciation)**

	<u>Governmental Activities</u>		<u>Business-type Activities</u>		<u>Total Primary Government</u>	
	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>	<u>2008</u>	<u>2007</u>
Infrastructure	\$ 645,241	\$ 669,117	\$ --	\$ --	\$ 645,241	\$ 669,117
Buildings/land, additions and improvements	169,417	190,508	495,079	334,815	664,496	525,323
Machinery and equipment	47,660	33,190	32,143	42,006	79,803	75,196
Vehicles	230,560	232,628	--	--	230,560	232,628
Water/Sewer system	--	--	<u>2,124,867</u>	<u>2,202,961</u>	<u>2,124,867</u>	<u>2,202,961</u>
Total	\$ <u>1,092,878</u>	\$ <u>1,125,443</u>	\$ <u>2,652,089</u>	\$ <u>2,579,782</u>	\$ <u>3,744,967</u>	\$ <u>3,705,225</u>

This year's major additions included:

4-Door Charger – Internal Service	\$ 21,773
Lift Station – Sewer Fund	173,481

**ECONOMIC CONDITION AND OUTLOOK**

State multi-year tax reduction legislation curtailed the State of Michigan's revenue collections. In May 2001 it became apparent that State revenues were declining and State Revenue Sharing payments to local government were cut to meet reduced revenue projections. Such reductions, and reductions in interest earnings on surplus funds, due to declines in interest rates, negatively impacted recent fiscal years, necessitating managerial constraints on operating expenditures.

Continuing expected reductions in State Revenue Sharing and the low interest rate environment, yet continuing inflationary pressure of municipal materials, supplies and equipment, dictated prudent expenditures for fiscal year 2007-2008, and a continuance of administrative cost containment measures.

**Village of Decatur**  
**Statement of Net Assets**  
**February 29, 2008**

	Primary Government			Component
	Governmental Activities	Business-type Activities	Total	Unit
<b>Assets</b>				
Cash and cash equivalents	\$ 744,602	\$ 299,090	\$ 1,043,692	\$ 11,408
Receivables				
Customers	139,091	47,980	187,071	806
Accrued interest and other	264	-	264	-
Due from other units of government	139,848	173,186	313,034	-
Internal balances	(107,284)	107,284	-	-
Inventories	-	20,200	20,200	-
Restricted assets				
Cash and cash equivalents	-	51,311	51,311	-
Capital assets not being depreciated	10,000	99,935	109,935	-
Capital assets, net	1,082,878	2,552,154	3,635,032	-
Total assets	<u>2,009,399</u>	<u>3,351,140</u>	<u>5,360,539</u>	<u>12,214</u>
<b>Liabilities</b>				
Accounts payable	6,212	660	6,872	-
Accrued and other liabilities	8,445	35,031	43,476	-
Deferred revenue	41,648	-	41,648	701
Noncurrent liabilities				
Due within one year	-	20,000	20,000	-
Due in more than one year	23,632	120,000	143,632	-
Total liabilities	<u>79,937</u>	<u>175,691</u>	<u>255,628</u>	<u>701</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	1,092,878	2,512,089	3,604,967	-
Restricted for:				
Debt service	-	51,311	51,311	-
Long-term business and home rehabilitation loans	114,800	-	114,800	-
Permit fees	1,487	-	1,487	-
Unrestricted	720,297	612,049	1,332,346	11,513
Total net assets	<u>\$ 1,929,462</u>	<u>\$ 3,175,449</u>	<u>\$ 5,104,911</u>	<u>\$ 11,513</u>

See Accompanying Notes to Financial Statements

**Village of Decatur**  
**Statement of Activities**  
**For the Year Ended February 29, 2008**

Functions/Programs	Program Revenues				Net (Expense) Revenue and Changes in Net Assets			Component Unit
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	
<b>Primary government</b>								
Governmental activities								
General government	\$ 166,468	\$ 6,868	\$ -	\$ -	\$ (159,600)	\$ -	\$ (159,600)	\$ -
Public safety	280,819	1,462	-	-	(279,357)	-	(279,357)	-
Public works	319,794	-	138,054	-	(181,740)	-	(181,740)	-
Community and economic development	1,316	-	-	-	(1,316)	-	(1,316)	-
Recreation and culture	56,578	1,974	-	-	(54,604)	-	(54,604)	-
Total governmental activities	824,975	10,304	138,054	-	(676,617)	-	(676,617)	-
Business-type activities								
Sewer	150,520	167,481	-	-	-	16,961	16,961	-
Water	170,394	205,598	-	8,415	-	43,619	43,619	-
Total business-type activities	320,914	373,079	-	8,415	-	60,580	60,580	-
Total primary government	\$ 1,145,889	\$ 383,383	\$ 138,054	\$ 8,415	(676,617)	60,580	(616,037)	-
<b>Component unit</b>								
Downtown Development Authority	\$ 14	\$ -	\$ -	\$ -				(14)
General revenues								
Property taxes					491,136	-	491,136	6,757
State shared revenue					174,090	-	174,090	-
Unrestricted investment earnings					8,131	3,985	12,116	39
Gain (loss) on sale of capital assets					3,750	-	3,750	-
Miscellaneous					36,335	14	36,349	-
Total general revenues and transfers					713,442	3,999	717,441	6,796
Change in net assets					36,825	64,579	101,404	6,782
Net assets - beginning of year					1,730,416	3,021,030	4,751,446	4,731
Prior period adjustment					162,221	89,840	252,061	-
Net assets - beginning of year (restated)					1,892,637	3,110,870	5,003,507	4,731
Net assets - end of year					\$ 1,929,462	\$ 3,175,449	\$ 5,104,911	\$ 11,513

See Accompanying Notes to Financial Statements

**Village of Decatur  
Governmental Funds  
Balance Sheet  
February 29, 2008**

	<u>Special Revenue Funds</u>				Nonmajor Governmental Funds	Total Governmental Funds
	<u>General</u>	<u>Major Street</u>	<u>Local Fund</u>	<u>Streets Fund</u>		
<b>Assets</b>						
Cash and cash equivalents	\$ 235,386	\$ 66,517	\$ 85,864	\$ 6,080	\$ 59,082	\$ 452,929
Receivables						
Customers	77,923	-	2,665	-	58,503	139,091
Accrued interest and other	264	-	-	-	-	264
Due from other units of government	105,350	17,182	7,619	9,697	-	139,848
Due from other funds	<u>1,771</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,771</u>
Total assets	<u>\$ 420,694</u>	<u>\$ 83,699</u>	<u>\$ 96,148</u>	<u>\$ 15,777</u>	<u>\$ 117,585</u>	<u>\$ 733,903</u>
<b>Liabilities</b>						
Accounts payable	\$ 2,390	\$ 305	\$ 137	\$ -	\$ -	\$ 2,832
Accrued and other liabilities	8,190	85	85	-	-	8,360
Due to other funds	2,887	64,633	-	1,771	-	69,291
Deferred revenue	<u>104,594</u>	<u>-</u>	<u>-</u>	<u>8,824</u>	<u>-</u>	<u>113,418</u>
Total liabilities	<u>118,061</u>	<u>65,023</u>	<u>222</u>	<u>10,595</u>	<u>-</u>	<u>193,901</u>
<b>Fund Balances</b>						
Reserved for:						
Long-term business and home rehabilitation loans	114,800	-	-	-	-	114,800
Permit fees	1,487	-	-	-	-	1,487
Unreserved, reported in:						
General fund	186,346	-	-	-	-	186,346
Special revenue funds	<u>-</u>	<u>18,676</u>	<u>95,926</u>	<u>5,182</u>	<u>117,585</u>	<u>237,369</u>
Total fund balances	<u>302,633</u>	<u>18,676</u>	<u>95,926</u>	<u>5,182</u>	<u>117,585</u>	<u>540,002</u>
Total liabilities and fund balances	<u>\$ 420,694</u>	<u>\$ 83,699</u>	<u>\$ 96,148</u>	<u>\$ 15,777</u>	<u>\$ 117,585</u>	<u>\$ 733,903</u>

See Accompanying Notes to Financial Statements

**Village of Decatur**  
**Governmental Funds**  
**Reconciliation of Fund Balances of Governmental Funds**  
**to Net Assets of Governmental Activities**  
**February 29, 2008**

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<b>Total fund balances for governmental funds</b>	\$ 540,002
Total net assets for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	843,268
Certain receivables are not available to pay for current period expenditures and, therefore are deferred in the funds.	71,770
Certain liabilities are not due and payable in the current period and are not reported in the funds. Compensated absences	(23,632)
Internal service funds are included as part of governmental activities.	<u>498,054</u>
<b>Net assets of governmental activities</b>	<u><u>\$ 1,929,462</u></u>

**Village of Decatur**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended February 29, 2008**

	<u>Special Revenue Funds</u>				<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Streets Fund</u>		
<b>Revenues</b>						
Taxes	\$ 366,266	\$ -	\$ 21,181	\$ 94,551	\$ -	\$ 481,998
Licenses and permits	9,166	-	-	-	-	9,166
State revenue sharing	175,547	-	-	-	-	175,547
Other state grants	-	95,643	42,411	-	-	138,054
Charges for services	10,279	-	-	-	25	10,304
Fines and forfeitures	5,512	-	-	-	-	5,512
Interest income	4,624	414	338	276	1,267	6,919
Rental income	2,455	-	-	-	-	2,455
Other revenue	14,977	1,560	2,665	-	-	19,202
	<u>588,826</u>	<u>97,617</u>	<u>66,595</u>	<u>94,827</u>	<u>1,292</u>	<u>849,157</u>
Total revenues						

See Accompanying Notes to Financial Statements



**Village of Decatur**  
**Governmental Funds**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**For the Year Ended February 29, 2008**

	<u>Special Revenue Funds</u>				<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>Streets Fund</u>		
<b>Expenditures</b>						
Current						
General government	\$ 157,080	\$ -	\$ -	\$ -	\$ -	\$ 157,080
Public safety	292,837	-	-	-	-	292,837
Public works	144,162	68,783	109,737	-	189	322,871
Community and economic development	747	-	-	-	-	747
Recreation and culture	43,869	-	-	-	-	43,869
Capital outlay	13,406	-	-	-	-	13,406
 Total expenditures	<u>652,101</u>	<u>68,783</u>	<u>109,737</u>	<u>-</u>	<u>189</u>	<u>830,810</u>
 Excess (deficiency) of revenues over expenditures	<u>(63,275)</u>	<u>28,834</u>	<u>(43,142)</u>	<u>94,827</u>	<u>1,103</u>	<u>18,347</u>
 <b>Other financing sources (uses)</b>						
Transfers in	64,329	-	54,457	-	-	118,786
Transfers out	<u>-</u>	<u>(24,250)</u>	<u>-</u>	<u>(94,536)</u>	<u>-</u>	<u>(118,786)</u>
 Total other financing sources and uses	<u>64,329</u>	<u>(24,250)</u>	<u>54,457</u>	<u>(94,536)</u>	<u>-</u>	<u>-</u>
 Net change in fund balance	<u>1,054</u>	<u>4,584</u>	<u>11,315</u>	<u>291</u>	<u>1,103</u>	<u>18,347</u>
 Fund balance - beginning of year	<u>301,579</u>	<u>14,092</u>	<u>84,611</u>	<u>4,891</u>	<u>116,482</u>	<u>521,655</u>
 Fund balance - end of year	<u>\$ 302,633</u>	<u>\$ 18,676</u>	<u>\$ 95,926</u>	<u>\$ 5,182</u>	<u>\$ 117,585</u>	<u>\$ 540,002</u>

See Accompanying Notes to Financial Statements

**Village of Decatur**  
**Governmental Funds**  
**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances**  
**of Governmental Funds to the Statement of Activities**  
**For the Year Ended February 29, 2008**

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<b>Net change in fund balances - Total governmental funds</b>	<b>\$ 18,347</b>
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Total change in net assets reported for governmental activities in the statement of activities  
is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those  
assets is allocated over their estimated useful lives and reported as depreciation expense.

Depreciation expense	(52,579)
Capital outlay	19,158
Sale of capital assets	(100)

Revenues in the statement of activities that do not provide current financial resources are not reported as revenue  
in the funds.

State shared revenue	(1,457)
Property taxes	9,138

Expenses are recorded when incurred in the statement of activities

Compensated absences	(2,620)
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Internal service funds are also included as governmental activities	<u>46,938</u>
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<b>Change in net assets of governmental activities</b>	<b><u>\$ 36,825</u></b>
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**Village of Decatur**  
**Proprietary Funds**  
**Statement of Net Assets**  
**February 29, 2008**

	Enterprise Funds			Internal Service Funds
	Sewer	Water	Total	
<b>Assets</b>				
Current assets				
Cash and cash equivalents	\$ 169,159	\$ 129,931	\$ 299,090	\$ 291,673
Receivables				
Customers	15,520	32,460	47,980	-
Due from other units of government	108,307	64,879	173,186	-
Due from other funds	68,631	62,250	130,881	-
Inventories	-	20,200	20,200	-
	<u>361,617</u>	<u>309,720</u>	<u>671,337</u>	<u>291,673</u>
Total current assets				
Noncurrent assets				
Restricted assets				
Cash and cash equivalents	-	51,311	51,311	-
Capital assets not being depreciated	79,689	20,246	99,935	-
Capital assets, net	<u>1,610,483</u>	<u>941,671</u>	<u>2,552,154</u>	<u>249,610</u>
	<u>1,690,172</u>	<u>1,013,228</u>	<u>2,703,400</u>	<u>249,610</u>
Total noncurrent assets				
Total assets	<u>2,051,789</u>	<u>1,322,948</u>	<u>3,374,737</u>	<u>541,283</u>

**Village of Decatur**  
**Proprietary Funds**  
**Statement of Net Assets**  
**February 29, 2008**

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
<b>Liabilities</b>				
Current liabilities				
Accounts payable	79	581	660	3,380
Accrued and other liabilities	4,214	29,650	33,864	85
Due to other funds	59,363	3,998	63,361	-
Current portion of noncurrent liabilities	-	20,000	20,000	-
Total current liabilities	<u>63,656</u>	<u>54,229</u>	<u>117,885</u>	<u>3,465</u>
Noncurrent liabilities				
Current liabilities payable from restricted assets				
Accrued interest payable	-	1,167	1,167	-
Long-term debt net of current portion	-	120,000	120,000	-
Total noncurrent liabilities	<u>-</u>	<u>121,167</u>	<u>121,167</u>	<u>-</u>
Total liabilities	<u>63,656</u>	<u>175,396</u>	<u>239,052</u>	<u>3,465</u>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	1,610,483	800,504	2,410,987	249,610
Restricted for:				
Debt Service	-	51,311	51,311	-
Unrestricted	<u>377,650</u>	<u>295,737</u>	<u>673,387</u>	<u>288,208</u>
Total net assets	<u>\$ 1,988,133</u>	<u>\$ 1,147,552</u>	3,135,685	<u>\$ 537,818</u>
Some amounts reported for business-type activities in the statement of net assets are different because certain internal service funds assets and liabilities are reported with business-type activities			<u>39,764</u>	
Net assets of business-type activities			<u>\$ 3,175,449</u>	

See Accompanying Notes to Financial Statements

**Village of Decatur**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended February 29, 2008**

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
<b>Operating revenue</b>				
Customer fees	\$ 167,486	\$ 205,598	\$ 373,084	\$ -
Billings to other funds	-	-	-	144,778
Other revenue	10	-	10	-
	<u>167,496</u>	<u>205,598</u>	<u>373,094</u>	<u>144,778</u>
Total operating revenue				
<b>Operating expenses</b>				
Personnel services	52,336	62,426	114,762	4,152
Supplies	1,651	4,565	6,216	-
Contractual services	35,082	30,330	65,412	48,515
Utilities	2,605	5,071	7,676	-
Repairs and maintenance	-	21,212	21,212	13,315
Other expenses	525	525	1,050	188
Depreciation	61,764	41,357	103,121	28,697
	<u>153,963</u>	<u>165,486</u>	<u>319,449</u>	<u>94,867</u>
Total operating expenses				
Operating income	<u>13,533</u>	<u>40,112</u>	<u>53,645</u>	<u>49,911</u>

**Village of Decatur**  
**Proprietary Funds**  
**Statement of Revenues, Expenses and Changes in Fund Net Assets**  
**For the Year Ended February 29, 2008**

	Enterprise Funds			Internal
	Sewer	Water	Total	Service Funds
<b>Nonoperating revenue (expenses)</b>				
Federal grant	\$ -	\$ 8,415	\$ 8,415	\$ -
Interest income	1,787	2,198	3,985	1,212
Gain on sale of assets	-	-	-	3,850
Interest expense	-	(9,500)	(9,500)	-
Total nonoperating revenues	1,787	1,113	2,900	5,062
Change in net assets	15,320	41,225	56,545	54,973
Net assets - beginning of year	1,914,228	1,075,072	2,989,300	409,704
Prior period adjustment	58,585	31,255	89,840	73,141
Net assets - beginning of year restated	1,972,813	1,106,327	3,079,140	482,845
Net assets - end of year	<u>\$ 1,988,133</u>	<u>\$ 1,147,552</u>	3,135,685	<u>\$ 537,818</u>
Some amounts reported for business-type activities in the statement of activities are different because the net revenue (expense) of certain internal service funds is reported with business-type activities			39,764	
Change in net assets of business-type activities			<u>\$ 3,175,449</u>	

**Village of Decatur**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended February 29, 2008**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
<b>Cash flows from operating activities</b>				
Receipts from customers	\$ 167,284	\$ 196,892	\$ 364,176	\$ -
Receipts from interfund users	-	(52,887)	(52,887)	144,778
Receipts from other funds	-	3,998	3,998	-
Payments to other funds	50,000	(54,150)	(4,150)	-
Payments to suppliers	(142,611)	(62,426)	(205,037)	(60,789)
Payments to employees	(52,336)	(13,319)	(65,655)	(4,152)
Payments for interfund services used	(10,034)	-	(10,034)	-
Net cash provided by operating activities	<u>12,303</u>	<u>18,108</u>	<u>30,411</u>	<u>79,837</u>
<b>Cash flows from capital and related financing activities</b>				
Purchases/construction of capital assets	(64,596)	(973)	(65,569)	(29,564)
Federal grant	-	8,415	8,415	-
Principal and interest paid on long-term debt	-	(79,500)	(79,500)	-
Proceeds from sale of capital assets	-	-	-	3,850
Net cash used by capital and related financing activities	<u>(64,596)</u>	<u>(72,058)</u>	<u>(136,654)</u>	<u>(25,714)</u>
<b>Cash flows from investing activities</b>				
Interest received	<u>1,787</u>	<u>2,198</u>	<u>3,985</u>	<u>1,212</u>
Net increase (decrease) in cash and cash equivalents	(50,506)	(51,752)	(102,258)	55,335
Cash and cash equivalents - beginning of year	<u>219,665</u>	<u>232,994</u>	<u>452,659</u>	<u>236,338</u>
Cash and cash equivalents - end of year	<u>\$ 169,159</u>	<u>\$ 181,242</u>	<u>\$ 350,401</u>	<u>\$ 291,673</u>

See Accompanying Notes to Financial Statements

**Village of Decatur**  
**Proprietary Funds**  
**Statement of Cash Flows**  
**For the Year Ended February 29, 2008**

	<u>Business-type Activities - Enterprise Funds</u>			<u>Internal Service Funds</u>
	<u>Sewer</u>	<u>Water</u>	<u>Total</u>	<u>Equipment</u>
<b>Reconciliation of operating income (loss) to net cash provided (used) by operating activities</b>				
Operating income	\$ 13,533	\$ 40,112	\$ 53,645	\$ 49,911
Adjustments to reconcile operating income to net cash from operating activities				
Depreciation and amortization expense	61,764	41,357	103,121	28,697
Changes in assets and liabilities				
Receivables (net)	(212)	(291)	(503)	-
Due from other units of government	-	(8,415)	(8,415)	-
Due from other funds	-	(52,887)	(52,887)	-
Accounts payable	(112,707)	(4,282)	(116,989)	1,356
Accrued and other liabilities	(75)	(1,484)	(1,559)	(127)
Due to other funds	50,000	3,998	53,998	-
Net cash provided by operating activities	<u>\$ 12,303</u>	<u>\$ 18,108</u>	<u>\$ 30,411</u>	<u>\$ 79,837</u>



**Village of Decatur**  
**Notes to Financial Statements**  
**February 29, 2008**

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**Note 1 - Summary of Significant Accounting Policies**

**Reporting entity**

Village of Decatur is governed by an elected seven-member Council. The accompanying financial statements present the government and its component unit, an entity for which the government is considered to be financially accountable. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the government (see discussion below for description).

**Discretely Presented Component Units** – The component unit column in the entity wide financial statements include the financial data of the Village's Downtown Development Authority. This unit is reported in a separate column to emphasize that it is legally separate from the Village. The members of the Governing Board of the Downtown Development Authority are appointed by the Village Council. The budgets and expenditures of the Downtown Development Authority must be approved by the Village Council. The Village also has the ability to significantly influence operations of the Downtown Development Authority. The Downtown Development Authority does not issue any other form of financial statements except as contained in the Village of Decatur annual financial statements.

**Government-wide and fund financial statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. *Government activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the *primary government* is reported separately from certain legally separate

*component units* for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segments are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

**Measurement focus, basis of accounting and financial statement presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Village of Decatur**  
**Notes to Financial Statements**  
**February 29, 2008**

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Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, sales taxes, franchise taxes, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the government.

The government reports the following major governmental funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Major Street Fund accounts for the maintenance and improvement activities for streets designated as "major" within the Village. Funding is primarily through state shared gas and weight taxes.

The Local Street Fund accounts for maintenance and improvement activities for streets designated as "local" within the

Village. Funding is primarily through state shared gas and weight taxes.

The Streets Fund accounts for 3.0 mills of tax collection for the improvement and upkeep of the street system and disburses the funds once collected to the appropriated funds designated by the budget.

The government reports the following major proprietary funds:

The Sewer Fund accounts for the activities of the sewage collection system.

The Water Fund accounts for the activities of the water distribution system.

Additionally, the government reports the following:

The nonmajor special revenue funds account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulatory provisions or administrative requirements.

The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the government on a cost reimbursement basis.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

**Village of Decatur**  
**Notes to Financial Statements**  
**February 29, 2008**

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As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes where the amounts are reasonably equivalent in value to the interfund services provided and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewer and water funds and the internal service funds are charges to customers for sales and services. The government also recognizes as operating revenue the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for sewer and water funds and the internal service funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

**Assets, liabilities, and net assets or equity**

Deposits and investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value based on quoted market price. Certificate of deposits are stated at cost which approximates fair value.

Receivables and payables – In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangement outstanding at the end of the fiscal year is referred to as “advances to/from other funds.” Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as “internal balances.”

All trade and property tax receivables are shown as net of allowance for uncollectible amounts. Property taxes are levied on each July 1<sup>st</sup> on the taxable valuation of property as of the preceding December 31<sup>st</sup>. Taxes are considered delinquent on March 1<sup>st</sup> of the following year, at which time penalties and interest are assessed.

The 2007 taxable valuation of the government totaled \$31,496,327 on which ad valorem taxes consisted of 14.5631 mills for operating purposes. This resulted in \$458,685 for operating expenses, exclusive of any Michigan Tax Tribunal or Board of Review adjustments.

Inventories – Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Restricted assets – Certain revenue bonds of the Water Fund require

**Village of Decatur**  
**Notes to Financial Statements**  
**February 29, 2008**

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amounts to be set aside for a bond reserve. These amounts have been classified as restricted cash.

Capital assets – Capital assets, which include property, plant and equipment, are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 (\$10,000 for infrastructure assets) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost, if purchased or constructed.

The reported value excludes normal maintenance and repairs which are essentially amounts spent in relation to capital assets that do not increase the capacity or efficiency of the item or extend its useful life beyond the original estimate. In the case of donations the government values these capital assets at the estimated fair value of the item at the date of its donation.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Buildings	20 to 60 years
Building improvements	10 to 30 years
Water and sewer lines	50 to 75 years
Vehicles	4 to 10 years
Office and computer equipment	4 to 15 years
Infrastructure	50 years

Compensated absences – It is the Village's policy to permit employees to accumulate earned but unused vacation and personal benefits. All vacation pay and personal time is accrued when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental funds only if

they have matured, for example, as a result of employee resignations

and retirements.

Long-term obligations – In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund equity – In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purposes. Designations of fund balance represent tentative management plans that are subject to change.

### **Comparative data**

Comparative data is not included in the government's financial statements.

## **Note 2 - Stewardship, Compliance, and Accountability**

### **Budgetary information**

The government is subject to the budgetary control requirements of the Uniform Budgeting Act (P.A. 621 of 1978, as amended). Annual budgets are adopted on a basis consistent with accounting principles

**Village of Decatur**  
**Notes to Financial Statements**  
**February 29, 2008**

generally accepted in the United States of America for the General Fund and all Special Revenue Funds. All annual appropriations lapse at fiscal yearend.

Prior to yearend, the Village Manager submits to the Village Council a proposed operating budget for the fiscal year commencing the following March 1. Public hearings are obtained to obtain taxpayer comments and the budget is legally enacted through passage of an ordinance prior to March 1.

The budget document presents information by fund, activity, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level. The Village Manager is authorized to transfer budgeted amounts between line items within an activity; however, any revisions that alter the total expenditures of an activity must be approved by the Village Council.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent when goods are received or services rendered.

**Excess of expenditures over appropriations**

During the year ended February 29, 2008, the Village incurred the following expenditure, which was in excess of the amounts appropriated. All excess amounts were funded through available carryover funds.

<u>Fund</u>	<u>Function</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance</u>
Local Street	Public Works	\$106,049	\$109,737	\$3,688

**Note 3 - Deposits and Investments**

At yearend the government's deposits and investments were reported in the basic financial statements in the following categories:

	Cash and Cash Equivalents	Restricted Cash and Cash Equivalents
Governmental activities	\$ 744,602	\$ -
Business-type activities	299,090	51,311
Total primary government	1,043,692	51,311
Component unit	11,408	-
Total	<u>\$ 1,055,100</u>	<u>\$ 51,311</u>

The breakdown between deposits and investments is as follows:

	Primary Government	Component Unit
Bank deposits (checking and savings accounts, money markets and certificates of deposit)	\$ 1,094,653	\$ 11,408
Petty cash and cash on hand	350	-
	<u>\$ 1,095,003</u>	<u>\$ 11,408</u>

*Interest rate risk* – In accordance with its investment policy, the government manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 60 months.

**Village of Decatur**  
**Notes to Financial Statements**  
**February 29, 2008**

*Credit risk* – State statutes authorize the government to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The local unit is allowed to invest in bonds, securities and other obligations of the United States, or any agency or instrumentality of the United States. United States government or federal agency obligations; repurchase agreements; bankers acceptance of United States Banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan. The investment policy adopted by the government authorizes investment in bonds and securities of the United States government and bank accounts and certificates of deposit, but not the remainder of State statutory authority as listed above.

*Concentration of credit risk* – The government has no policy that would limit the amount that may be issued in any one issuer.

*Custodial credit risk* - deposits – In the case of deposits, this is the risk that in the event of bank failure, the government's deposits may not be returned to it. The government does not have a policy for custodial credit risk. As of year end, \$ 957,886 was exposed to custodial credit risk because it was uninsured and uncollateralized.

**Note 4 - Receivables and Deferred Revenue**

The only receivables not expected to be collected within one year are as follows:

	Due After One Year	Fund
<b>Primary government</b>		
Business loans	\$ 59,606	General
Home rehabilitation loans	55,194	Home Rehabilitation
	<u>\$ 114,800</u>	

Governmental funds report deferred revenue in connection with receivables for revenue that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

	<u>Unavailable</u>	<u>Unearned</u>
<b>Primary government</b>		
State shared revenue	\$ 25,770	\$ -
Property taxes	46,000	
Tower lease	-	41,648
	<u>\$ 71,770</u>	<u>\$ 41,648</u>
<b>Component unit</b>		
Property taxes	\$ -	\$ 701

**Village of Decatur**  
**Notes to Financial Statements**  
**February 29, 2008**

**Note 5 - Capital Assets**

Capital assets activity of the primary government for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Governmental activities</b>				
Capital assets not being depreciated				
Land	\$ 10,000	\$ -	\$ -	\$ 10,000
Total capital assets not being depreciated	10,000	-	-	10,000
Capital assets being depreciated				
Land improvements	262,513	-	-	262,513
Infrastructure	716,256	-	-	716,256
Buildings, additions and improvements	125,623	-	-	125,623
Machinery and equipment	156,015	27,038	12,249	170,804
Vehicles	357,086	21,773	44,000	334,859
Total capital assets being depreciated	1,617,493	48,811	56,249	1,610,055
Less accumulated depreciation for				
Land improvements	128,478	16,600	-	145,078
Infrastructure	47,139	23,876	-	71,015
Buildings, additions and improvements	79,150	4,491	-	83,641
Machinery and equipment	122,825	12,468	12,149	123,144
Vehicles	124,458	23,841	44,000	104,299
Total accumulated depreciation	502,050	81,276	56,149	527,177
Net capital assets being depreciated	1,115,443	(32,465)	100	1,082,878
Governmental activities capital assets, net	\$ 1,125,443	\$ (32,465)	\$ 100	\$ 1,092,878

	Beginning Balance	Increases	Decreases	Ending Balance
<b>Business-type activities</b>				
Capital assets not being depreciated				
Land	\$ 99,935	\$ -	\$ -	\$ 99,935
Total capital assets not being depreciated	99,935	-	-	99,935
Capital assets being depreciated				
Buildings, additions and improvements	524,507	173,481	-	697,988
Machinery and equipment	136,471	1,946	-	138,417
Water system	1,155,047	-	-	1,155,047
Sewer system	2,490,439	-	-	2,490,439
Total capital assets being depreciated	4,306,464	175,427	-	4,481,891
Less accumulated depreciation for				
Buildings, additions and improvements	289,627	13,217	-	302,844
Machinery and equipment	94,465	11,809	-	106,274
Water system	398,320	28,287	-	426,607
Sewer system	1,044,205	49,807	-	1,094,012
Total accumulated depreciation	1,826,617	103,120	-	1,929,737
Net capital assets being depreciated	2,479,847	72,307	-	2,552,154
Business-type capital assets, net	\$ 2,579,782	\$ 72,307	\$ -	\$ 2,652,089

**Village of Decatur**  
**Notes to Financial Statements**  
**February 29, 2008**

Depreciation expense was charged to programs of the primary government as follows:

**Governmental activities**

General government	\$ 6,768
Public safety	3,916
Public works	24,424
Community and economic development	569
Recreation and culture	16,902

Capital assets held by the government's internal service funds are charged to the various functions based on their usage of the assets

28,697

Total governmental activities

81,276

**Business-type activities**

Sewer	61,764
Water	<u>41,357</u>

Total business-type activities

103,121

Total primary government

\$ 184,397

**Note 6 - Interfund Receivables, Payable, Transfers**

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
Water	General	\$ 2,887
Sewer	Major Streets	64,633
General	Streets Fund	1,771
Water	Sewer Fund	59,363
Sewer	Water Fund	3,998
		<u>\$ 132,652</u>

The outstanding balances between funds result mainly from the time lag between the dates that 1) interfund goods and services are provided or reimbursable expenditures occur, 2) transactions are recorded in the accounting system, and 3) payments between funds are made.

The details for interfund transfers are as follows:

Funds Transferred From	Funds Transferred To	Amount
Streets	General	\$ 64,329
Major Street	Local Street	24,250
Streets	Local Street	<u>30,207</u>
		<u>\$ 118,786</u>

Transfers from the general fund are used to move unrestricted general fund revenues to finance various programs that the government must account for in other funds in accordance with budgetary authorizations, including amounts provided as subsidies or matching funds for various grant programs.

Transfers to the local street fund are used to support the operating costs of the fund.

The transfer from the streets fund to the general fund was used to transfer general fund property taxes that had originally been recorded in the streets fund.



**Village of Decatur**  
**Notes to Financial Statements**  
**February 29, 2008**

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**Note 7 - Long-Term Debt**

The government issues bonds to provide for the acquisition and construction of major capital projects. General obligation bonds are direct obligations and pledge the full faith and credit of the government. Installment purchase agreements are also general obligations of the government. Other long-term obligations include compensated absences. Compensated absences are typically liquidated with funds from the General Fund.

Long-term obligation activity is summarized as follows:

	Amount of Issue	Maturity Date	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
<b>Governmental activities</b>									
Compensated absences					\$ 21,011	\$ 2,621	\$ -	\$ 23,632	\$ -
<b>Business-type activities</b>									
Bonds and notes payable									
Water Supply System Revenue Bonds									
Bonds, Series 1979	\$ 560,000	1/1/2018	5%	\$ 20,000-25,000	\$ 210,000	\$ -	\$ 70,000	\$ 140,000	\$ 20,000

The Village paid \$9,500 in interest expense for the year ending February 29, 2008.

**Village of Decatur**  
**Notes to Financial Statements**  
**February 29, 2008**

Annual debt service requirements to maturity for the above obligations are as follows:

Year Ending February 28,	Business-type Activities	
	Principal	Interest
2009	\$ 20,000	\$ 7,000
2010	20,000	6,000
2011	25,000	5,000
2012	25,000	3,750
2013-2014	<u>50,000</u>	<u>3,750</u>
	<u>\$ 140,000</u>	<u>\$ 25,500</u>

**Note 8 - Risk Management**

The government is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The government has purchased commercial insurance for all claims up to \$1,000,000. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**Note 9 - Employee Retirement And Benefit Systems**

**Defined contribution pension plan**

The Village provides pension benefits for all its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan, plus investment earnings. The plan permits employees to defer a portion of their current compensation until the employee terminates employment. The Village makes a matching contribution (not to exceed 4% of covered payroll for Police Union members and 3% for

all other employees) for all personnel who contribute to the plan. Total contributions for each employee (and interest allocated to the employee's account) are immediately 100% vested. The Village is not a trustee of the plan, nor is the Village responsible for investment management of plan assets.

The Village and covered employees made contributions of \$10,820 and \$30,394 respectively, for the fiscal year 2007-2008 for a total of \$41,214.

**Note 10 - Contingent Liabilities**

Amounts received or receivable from grant agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures that may be disallowed by the grantor cannot be determined at this time, although the government expects such amounts, if any, to be immaterial.

**Note 11 - Construction Code Act**

A summary of construction code enforcement transactions for the year ended February 29, 2008 is as follows:

Carryover excess from prior year	\$ 149
Permit revenue	6,384
Permit expenditures	<u>(5,046)</u>
Excess of revenue over expenditures	<u>\$ 1,487</u>

**Village of Decatur**  
**Notes to Financial Statements**  
**February 29, 2008**

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**Note 12 - Prior Period Adjustments**

Based on the Village's review of the capital asset listings, a number of adjustments were required to be made to properly reflect capital assets as of February 29, 2008. The prior period adjustments required to be made were as follows:

<u>Fund</u>	<u>Description</u>	<u>Amount</u>
General	Capitalized an asset and depreciation	89,080
Internal Service	Capitalized an asset and depreciation	73,141
	Governmental activities	<u>162,221</u>
Sewer	Capitalized an asset and depreciation	(29,987)
Sewer	Capitalized an asset and depreciation	1,268
Sewer	Contract payable payment	<u>87,304</u>
		<u>58,585</u>
Water	Capitalized an asset and depreciation	29,987
Water	Capitalized an asset and depreciation	<u>1,268</u>
		<u>31,255</u>

remediation activities of the effects of *existing* pollution. It does not include *prevention* or *control* activities nor future remediation required upon retirement of an asset. In general, a liability will be recorded based on the *current value* of expected costs as estimated using the *expected cash flows method*. This statement is effective for financial statements with periods beginning after December 15, 2007. However, measurement is required as of the beginning of the period. The Government Accounting Standards Board has issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. The new standard characterizes an intangible asset as an asset that lacks physical substance, is nonfinancial in nature and has an initial useful life extending beyond a single reporting period. In general, the new rules will cause government-wide financial statements to include intangible assets as capital assets. This statement is effective for the year ending June 30, 2010.

**Note 13 - Upcoming Accounting and Reporting Changes**

The Government Accounting Standards Board has issued Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits other than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care. The new rules will cause the government-wide financial statements to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009.

The Government Accounting Standards Board has issued Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement addresses how to account for pollution

**Village of Decatur**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended February 29, 2008**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes				
Property taxes	\$ 345,703	\$ 399,300	\$ 358,570	\$ (40,730)
Penalties and interest	2,600	2,600	2,770	170
Administration fee	4,550	4,663	4,926	263
Licenses and permits	8,020	8,020	9,166	1,146
State revenue sharing	204,244	204,244	175,547	(28,697)
Charges for services	12,800	12,800	10,279	(2,521)
Fines and forfeitures	3,500	3,500	5,512	2,012
Interest income	3,150	3,150	4,624	1,474
Rental income	1,200	1,200	2,455	1,255
Other revenue	32,800	32,800	14,977	(17,823)
Transfer in	83,124	67,987	64,329	(3,658)
Total revenues	701,691	740,264	653,155	(87,109)

**Village of Decatur**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended February 29, 2008**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Expenditures</b>				
General government				
Village board	\$ 48,545	\$ 45,023	\$ 47,183	\$ 2,160
Manager	41,175	47,327	39,881	(7,446)
Clerk	41,992	43,627	38,655	(4,972)
Treasurer	14,180	15,843	14,395	(1,448)
Elections	200	200	-	(200)
Buildings and grounds	18,100	18,100	16,966	(1,134)
Total general government	164,192	170,120	157,080	(13,040)
Public safety				
Police	298,395	306,540	286,407	(20,133)
Building inspection department	7,850	7,850	6,430	(1,420)
Total public safety	306,245	314,390	292,837	(21,553)
Public works				
Department of public works	108,771	126,746	110,994	(15,752)
Sidewalks	12,750	13,788	13,288	(500)
Street lighting	22,000	20,885	19,880	(1,005)
Total public works	143,521	161,419	144,162	(17,257)

See Accompanying Notes to Financial Statements

**Village of Decatur**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**General Fund**  
**For the Year Ended February 29, 2008**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
Community and economic development Planning	\$ 26,014	\$ 26,014	\$ 747	\$ (25,267)
Total community and economic development	26,014	26,014	747	(25,267)
Recreation and culture Parks and recreation	44,300	53,350	43,869	(9,481)
Total recreation and culture	44,300	53,350	43,869	(9,481)
Capital outlay	15,283	14,973	13,406	(1,567)
Total expenditures	699,555	740,266	652,101	(88,165)
Excess of revenues over expenditures	2,136	(2)	1,054	1,056
Fund balance - beginning of year	301,579	301,579	301,579	-
Fund balance - end of year	<u>\$ 303,715</u>	<u>\$ 301,577</u>	<u>\$ 302,633</u>	<u>\$ 1,056</u>

**Village of Decatur**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Major Street Fund**  
**For the Year Ended February 29, 2008**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Other state grants	\$ 97,000	\$ 97,000	\$ 95,643	\$ (1,357)
Interest income	750	750	414	(336)
Other revenue	-	1,560	1,560	-
	<u>97,750</u>	<u>99,310</u>	<u>97,617</u>	<u>(1,693)</u>
<b>Expenditures</b>				
Current				
General government	5,080	336	-	(336)
Public works	63,840	74,721	68,783	(5,938)
Capital outlay	1,525	-	-	-
Transfers out	27,302	24,250	24,250	-
	<u>97,747</u>	<u>99,307</u>	<u>93,033</u>	<u>(6,274)</u>
Total expenditures				
	<u>97,747</u>	<u>99,307</u>	<u>93,033</u>	<u>(6,274)</u>
Excess of revenues over expenditures	3	3	4,584	4,581
Fund balance - beginning of year	<u>14,092</u>	<u>14,092</u>	<u>14,092</u>	<u>-</u>
Fund balance - end of year	<u>\$ 14,095</u>	<u>\$ 14,095</u>	<u>\$ 18,676</u>	<u>\$ 4,581</u>

**Village of Decatur**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Local Street Fund**  
**For the Year Ended February 29, 2008**

	Budgeted Amounts		Actual	Actual Over (Under)
	Original	Final		Final Budget
<b>Revenues</b>				
Taxes	\$ 21,000	\$ 21,000	\$ 21,181	\$ 181
Other state grants	46,000	46,000	42,411	(3,589)
Interest income	250	250	338	88
Other revenue	-	-	2,665	2,665
Transfers in	44,457	54,457	54,457	-
	<u>111,707</u>	<u>121,707</u>	<u>121,052</u>	<u>(655)</u>
Total revenues				
<b>Expenditures</b>				
Current				
General government	1,845	15,658	-	(15,658)
Public works	104,110	104,524	109,737	5,213
Capital outlay	1,525	1,525	-	(1,525)
Transfers out	4,227	-	-	-
	<u>111,707</u>	<u>121,707</u>	<u>109,737</u>	<u>(11,970)</u>
Total expenditures				
Excess of revenues over expenditures	-	-	11,315	11,315
Fund balance - beginning of year	84,611	84,611	84,611	-
Fund balance - end of year	<u>\$ 84,611</u>	<u>\$ 84,611</u>	<u>\$ 95,926</u>	<u>\$ 11,315</u>



**Village of Decatur**  
**Required Supplemental Information**  
**Budgetary Comparison Schedule**  
**Streets Fund**  
**For the Year Ended February 29, 2008**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 80,827	\$ 94,486	\$ 94,551	\$ 65
Interest income	50	50	276	226
Total revenues	80,877	94,536	94,827	291
<b>Expenditures</b>				
Transfers out	80,877	94,536	94,536	-
Total expenditures	80,877	94,536	94,536	-
Excess of revenues over expenditures	-	-	291	291
Fund balance - beginning of year	4,891	4,891	4,891	-
Fund balance - end of year	\$ 4,891	\$ 4,891	\$ 5,182	\$ 291

**Village of Decatur**  
**Other Supplemental Information**  
**Combining Balance Sheet**  
**Nonmajor Governmental Funds**  
**February 29, 2008**

	<u>Special Revenue Funds</u>		Total Nonmajor Governmental Funds
	<u>Home Rehabil- itation</u>	<u>Fire Insurance Proceeds</u>	
<b>Assets</b>			
Cash and cash equivalents	\$ 58,678	\$ 404	\$ 59,082
Receivables			
Customers	<u>58,503</u>	<u>-</u>	<u>58,503</u>
 Total assets	 <u>\$ 117,181</u>	 <u>\$ 404</u>	 <u>\$ 117,585</u>
<b>Fund Balances</b>			
Undesignated	<u>117,181</u>	<u>404</u>	<u>117,585</u>
 Total fund balances	 <u>117,181</u>	 <u>404</u>	 <u>117,585</u>
 Total liabilities and fund balances	 <u>\$ 117,181</u>	 <u>\$ 404</u>	 <u>\$ 117,585</u>

See Accompanying Notes to Financial Statements

**Village of Decatur**  
**Other Supplemental Information**  
**Combining Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Nonmajor Governmental Funds**  
**For the Year Ended February 29, 2008**

	<u>Special Revenue Funds</u>		<u>Total Nonmajor Governmental Funds</u>
	<u>Home Rehabilitation</u>	<u>Fire Insurance Proceeds</u>	
<b>Revenues</b>			
Charges for services	\$ 25	\$ -	\$ 25
Interest income	<u>1,243</u>	<u>24</u>	<u>1,267</u>
Total revenues	<u>1,268</u>	<u>24</u>	<u>1,292</u>
<b>Expenditures</b>			
Current			
Public works	<u>189</u>	<u>-</u>	<u>189</u>
Excess of revenues over expenditures	<u>1,079</u>	<u>24</u>	<u>1,103</u>
Net change in fund balance	<u>1,079</u>	<u>24</u>	<u>1,103</u>
Fund balance - beginning of year	<u>116,102</u>	<u>380</u>	<u>116,482</u>
Fund balance - end of year	<u>\$ 117,181</u>	<u>\$ 404</u>	<u>\$ 117,585</u>

**Village of Decatur**  
**Other Supplemental Information**  
**Component Unit - Downtown Development Authority**  
**Budgetary Comparison Schedule**  
**For the Year Ended February 29, 2008**

	Budgeted Amounts		Actual	Actual Over (Under) Final Budget
	Original	Final		
<b>Revenues</b>				
Taxes	\$ 6,600	\$ 7,508	\$ 6,757	\$ (751)
Interest income	37	37	39	2
Other revenue	150	150	-	(150)
Total revenues	6,787	7,695	6,796	(899)
<b>Expenditures</b>				
Current				
Community and economic development	6,787	7,695	14	(7,681)
Total expenditures	6,787	7,695	14	(7,681)
Deficiency of revenues over expenditures	-	-	6,782	6,782
Fund balance - beginning of year	4,731	4,731	4,731	-
Fund balance - end of year	\$ 4,731	\$ 4,731	\$ 11,513	\$ 6,782

**Village of Decatur**  
**Other Supplemental Information**  
**Schedule of Indebtedness**  
**February 29, 2008**

Description	Interest Rate	Date of Maturity	Amount of Annual Maturity	Interest	Total
<b>Business-type Activities</b>	5.000%	2009	\$ 20,000	\$ 7,000	\$ 27,000
1979 Water Supply System Revenue Bonds	5.000%	2010	20,000	6,000	26,000
Amount of issue - \$ 560,000	5.000%	2011	25,000	5,000	30,000
	5.000%	2012	25,000	3,750	28,750
	5.000%	2013	25,000	2,500	27,500
	5.000%	2014	25,000	1,250	26,250
			<u>\$ 140,000</u>	<u>\$ 25,500</u>	<u>\$ 165,500</u>



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July 30, 2008

Management and the Village Council  
Village of Decatur  
114 N. Phelps St.  
Decatur, MI 49045

We have completed our audit of the financial statements of the Village of Decatur as of and for the year ended February 29, 2008 and have issued our report dated July 30, 2008. We are required to communicate certain matters to you in accordance with auditing standards generally accepted in the United States of America that are related to internal control and the audit. The appendices to this letter set forth those communications as follows:

I Auditors' Communication of Significant Matters with Those Charged with Governance

II Management Comments

We discussed these matters with various personnel in the organization during the audit. We would also be pleased to meet with you to discuss these matters at your convenience.

These communications are intended solely for the information and use of management, the Village Council, others within the organization, and are not intended to be and should not be used by anyone other than those specified parties.

*Yeo & Yeo, P.C.*

Kalamazoo, Michigan



## **Appendix I**

### **Communication to Those Charged with Governance**

#### **Responsibilities under generally accepted auditing standards**

As stated in our engagement letter dated April 21, 2008, we are responsible for conducting our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS) established by the Auditing Standards Board of the American Institute of Certified Public Accountants. Our responsibility, as prescribed by US GAAS, is to express an opinion about whether the financial statements prepared by management, with your oversight, are fairly presented, in all material respects. Our audit does not relieve you of your responsibilities.

#### **Planned Scope and Timing of the Audit**

We performed the audit as outlined in our engagement to you related to planning matters dated April 21, 2008.

#### **Significant Audit Findings**

Management is responsible for the selection and use of appropriate accounting policies. We will advise management about their appropriateness and application. The significant accounting policies are described in Note 1 of the financial statements. We noted no transactions entered into by the Village during the year where there is lack of authoritative guidance or consensus. There are no significant transactions that were recognized in a period other than which they occurred.

- Accounting estimates are based on management's knowledge and experience about past and current events and assumptions. Some estimates are sensitive because of their significance to the financial statements and the fact that future events affecting them may differ from those expected.
- Disclosures in the financial statements are neutral, consistent and clear. Certain disclosures are more sensitive than others due to their relevance to the users of the financial statements.

#### **Difficulties Encountered During the Audit**

We encountered no significant difficulties in dealing with management in performing and completing our audit.

#### **Corrected and Uncorrected Misstatements**

Professional standards require that the auditor accumulate all known and likely misstatements identified during the audit, other than those the auditor believes to be trivial. The adjustments identified during the audit have been communicated to management and management has posted all adjustments.

### **Disagreements with Management**

A disagreement with management is defined as a financial accounting, reporting or auditing matter, whether or not resolved to our satisfaction, which could be significant, individually or in the aggregate to the financial statements or the auditors' report. We had no disagreements with management during the audit.

### **Management Representations**

We have requested certain representations from management that are included in the management representation letter dated as of the date of the audit report.

### **Management's Consultations with Other Accountants**

From time to time, management may decide to consult with other accountants about audit and accounting matters. Should this occur, professional standards require the consulting accountant to communicate with us to determine that they have all the relevant facts. To our knowledge, there were no consultations with other accountants during the year.

### **Significant Issues Discussed or Subject to Correspondence with Management**

From time to time auditors discuss significant issues with management such as business conditions affecting the entity, business plans and strategies that may affect the risk of material misstatement and the application of accounting principles and auditing standards. The issues discussed during the audit occurred during the normal course of our professional relationship and our responses were not a condition to our retention.



## **Appendix II Management Comments**

In planning and performing our audit of the financial statements of the Village of Decatur as of and for the year ended February 29, 2008, we considered Village of Decatur's internal control over financial reporting (internal control) as a basis for designing our audit procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village's internal control. Accordingly, we do not express an opinion on the effectiveness of the Village's internal control.

However, during our audit we became aware of several matters that are opportunities for strengthening internal controls, improving operating efficiency and reducing expenses. This letter does not affect our report dated July 30, 2008, on the financial statements of the Village of Decatur. Our comments and recommendations regarding those matters are:

### **Prior Year Recommendations:**

#### **Unlawful Expenditures**

During the audit, it was discovered that the Village Council made a donation to Decatur Rocket Football and Cheerleading organization, which is a community organization. Donations to a community organization are unlawful expenditures and are prohibited under state law.

*Suggestion:* We recommend that the Village should no longer give donations to community organizations. In the future, the Village should ensure that all expenditures are authorized as defined in the Bulletin for Audits of Local Units in Michigan.

*Current status:* We noted the Council approved donations to the Decatur Rocket Football and Cheerleading organization and also to the Decatur Youth Group (Little League) during fiscal year 2008. Per discussion with the Village Manager, it was noted that a recommendation was made to the Council to not approve such expenditures; however, the Council voted to approve the donations.

### **Current Year Recommendations:**

#### **Internal Controls Documentation**

As part of our audit planning procedures, we are required to obtain an understanding of internal control of the Village. Part of the internal control process is the communication of information, including the communication of how internal controls are designed and operating. During our audit planning procedures we noted that documentation of internal control policies and procedures was incomplete.

*Suggestion:* We recommend that the Village completely document and disseminate all internal control policies and procedures in one document. This ensures that all employees understand what their responsibilities in internal control are. In addition, it ensures continuity of internal control procedures in the unfortunate event of employee turnover or unexpected absence. Documentation should not only indicate the flow of documents but also what internal control procedures are performed by each employee and what documentation is required to indicate a

procedure was completed. The monitoring process should also be documented in this procedures manual, including who is responsible for monitoring, the minimum monitoring which must be done, and what documentation is required to indicate monitoring was performed.

### **Audit Adjustments**

A number of audit adjustments were required to record receivables for state revenue sharing and property taxes, to reclass payments received on notes receivable amounts, and to reclass payments made on bond payable amounts.

*Suggestion:* We recommend that the Village Clerk record these journal entries prior to the audit fieldwork to reduce the number of audit adjustments required.

### **Approval of Disbursements**

During our review of internal control policies and procedures, we noted that the Council does not approve disbursements prior to issuance. Per State of Michigan regulations, all disbursements must be approved by the Council prior to issuance unless addressed otherwise in the charter.

*Suggestion:* We recommend the Council establish a formal policy to authorize payments prior to approval to avoid finance or late charges and to pay appropriated amounts and payroll (including related payroll taxes and withholdings). However, this policy must be very limited and a list of payments made prior to approval must be presented to the Council for approval. All other disbursements not included in this policy should be approved by the Council prior to issuance.

### **Water Fund Inventory**

During our review of the inventory balance maintained in the Water Fund, we noted that a formal physical inventory as of the year-end date is not performed. We did note that the DPW Supervisor prepared a list of estimated inventory items on hand in March 2008.

*Suggestion:* If the Village would like to continue to maintain an inventory balance in the Water Fund, a formal physical inventory should be performed on February 28<sup>th</sup> to ensure an accurate inventory balance as of year-end. In addition, inventory items purchased during the year should be added to the inventory balance rather than expensed as operating supplies. Inventory items are then expensed when used. If the Village does not want to maintain an inventory balance in the Water Fund and chooses to expense operating supplies when purchased, an adjustment will be required in the Water Fund to remove the inventory amount and record an adjustment to net assets.